

# **Massachusetts Neighborhood Stabilization Loan Fund**



Massachusetts  
Housing  
Investment  
Corporation

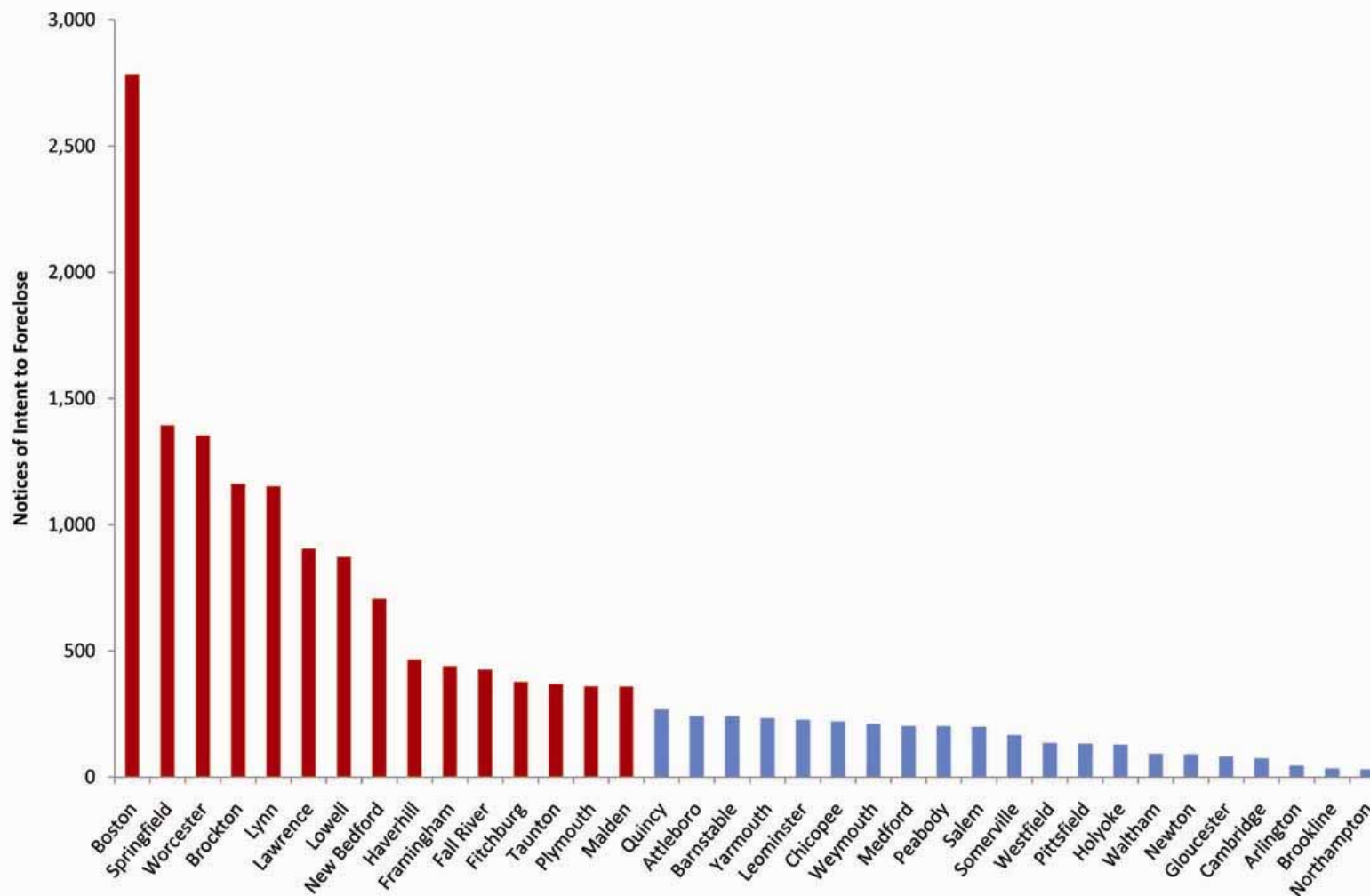
**December 12, 2008**

# Neighborhood Stabilization Loan Fund: Need and Genesis

- Foreclosures in Massachusetts increased 118% from 2007 to 2008, and are a major problem in some of the older cities
- Like elsewhere, much of the early effort here focused on foreclosure prevention
- Task Force was formed in late 2007 to confront the problems presented by foreclosed properties
- Earlier this year MHIC was asked to establish a Fund to finance the purchase and rehabilitation of foreclosed properties
- Working with partners, we have raised \$22 million and created such a Fund

# Community Impact in Massachusetts

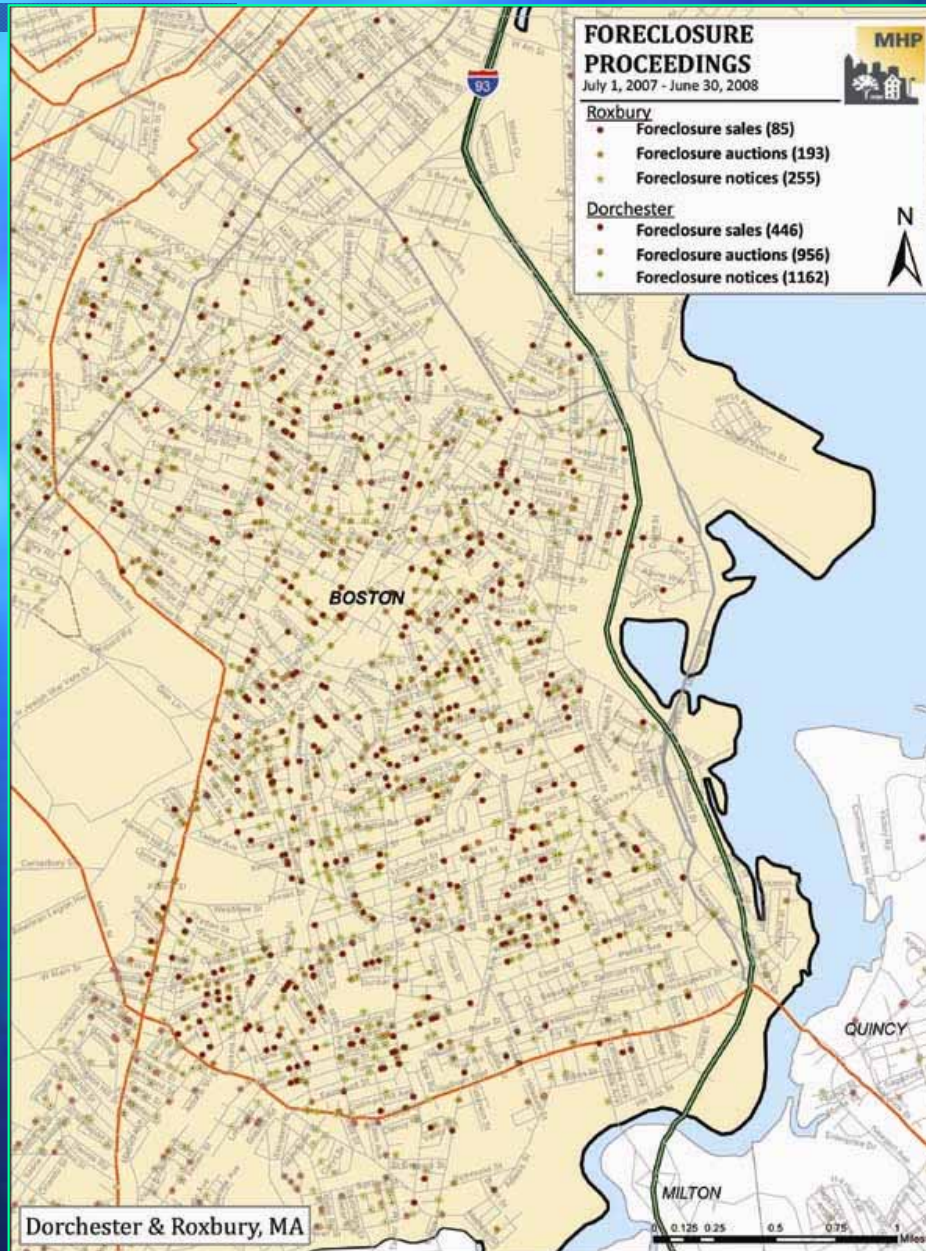
**Foreclosure Notices in Massachusetts CDBG Entitlement Communities  
July 2007 through June 2008**



Source: Mass. Housing Partnership Fund



# Foreclosures in Boston Neighborhoods





# Boston: Hendry Street

## Hendry Street

## Dorchester

A neighborhood with 348 foreclosed properties





# Chelsea: Marlboro Street



# Neighborhood Stabilization Loan Fund

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- The goal of the loan fund is to finance neighborhood stabilization efforts in areas that have been hard hit by the clustering of foreclosed properties, so applicants must be working within the context of a neighborhood stabilization plan/approach.
- The initial target areas include: Boston, Chelsea, Lawrence, Springfield, Worcester, New Bedford, Fitchburg, Brockton and Lowell.
- Qualifying applications must have three basic elements:
  - A credit-worthy, capable sponsor
  - A feasible acquisition and exit strategy based on the realities of the local market and housing stock
  - Municipal support



# Approach to this challenge

- **Packaged loans covering full cost of acquisition and rehabilitation of properties:**
  - Pre-approve borrowers so that they can act quickly and know exactly what to expect, with pre-packaged closing documents and process
  - Limited recourse to borrowers on acquisition/rehab loans
  - Low interest loans (approximately 5.25%) with no points
  - Lines of credit to provide funds for deposits, due diligence, and (if necessary) rapid acquisition – with recourse
  - Access to take-out financing from MHP Fund
- **DHCD is willing to make available approximately \$60,000 of subsidy per qualifying unit, from either state (HSF) or federal (NSP) programs**



# Neighborhood Stabilization Loan Fund

- n **Fund will be managed by MHIC with the following structure:**
  - \$1 million from Affordable Housing Trust Fund as top loss guarantee protecting all Fund investors
  - \$4 million in PRI Funds (as subordinate debt) from foundations (Boston Foundation, Hyams, Living Cities). MHIC and MHP would together guarantee 10% of the risk of this layer
  - Remainder (\$17 million) provided 50/50 by MHP and MHIC
- n **Loans would be provided at interest rates of approximately 5.25% (LIBOR + 2.75%) covering up to 100% of the exit strategy**

# Capital Structure



\*Note: MHIC and MHP Fund agree to guarantee 10% of any losses incurred by the PRI lenders.



# NSLF Loan Policy: Eligible Sponsors

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**Both non-profit and for-profit developers are eligible**

**Successful proposals will include:**

- **Identification of target neighborhoods**
- **The sponsor's development plan, with supporting typical development and operating budgets**
- **A market study of the sponsor's target neighborhood, commissioned by MHIC**
- **Recommended total maximum disbursements under both the revolving acquisition/ construction loans and lines of credit**

# NSLF: Loans Available

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## Acquisition/Construction Loans:

- Each property acquisition will be reviewed by MHIC, for conformance with plan and due diligence
- Limited recourse to borrower
- Generally underwritten as rental properties
- Take-out financing identified and secured
- Loan amount: 100% of anticipated proceeds from exit strategy, less any developer fee. For rental projects, up to 90% LTV. For ownership, substantial cushion and supported by subordinate debt.



# NSLF: Loans Available

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## Lines of Credit:

- Used to fund earnest money deposits, down payments on P&S, property due diligence, construction advances
- Full recourse to borrower
- Rarely to be used for property acquisition

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# NSLF: Pipeline

Borrower		Status	Units	Buildings	NSLF Loan	HSF/NSP*	HSF/NSP per unit*
Lawrence Community Works	Lawrence	approved	21	7	1,781,281	1,654,500	78,786
Nuestra Comunidad	Boston	approved	36	12	2,969,912	2,051,385	56,983
Codman Square NDC	Boston	approved	12	4	1,315,683	699,188	58,266
Chelsea Neighborhood Developers	Chelsea	approved	36	12	4,595,575	3,557,925	98,831
Dorchester Bay EDC	Boston	pending	24	8	1,454,815	1,440,000	60,000
Eric Berke	Boston	pending	15	5	1,911,420	900,000	60,000
Main South CDC	Worcester	pending	19	6	1,337,474	1,140,000	60,000
David Zisskind	Worcester	pending	15	5	934,507	900,000	60,000
Debra Katz	Springfield	pending	18	6	854,048	900,000	50,000
HAP	Springfield	pending	16	8	348,506	960,000	60,000
Joseph Shelzi	Lawrence	pending	12	4	815,447	480,000	40,000
Coalition for a Better Acre	Lowell	pending	18	6	1,330,481	1,440,000	80,000
Steve Bryan	Boston	pending	18	6	1,519,704	1,080,000	60,000
TOTAL			260	89	21,168,855	17,202,997	66,165

Note: These production and funding totals represent initial requests and not multi-year goals.

\*These are the subsidy funding requests, not yet approved by DHCD.



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